

TOWNSHIP OF CRYSTAL FALLS
IRON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2008

Auditing Procedures Report

Reset Form

Email

Issued under Public Act 2 of 1968, as amended.

Name	Crystal Falls Township	County	IRON	Type	TOWNSHIP	MuniCode	
Opinion Date-Use Calendar	June 13, 2008	Audit Submitted-Use Calendar	June 28, 2008	Fiscal Year-Use Drop List		2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <u>NA</u>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$543,496
General Fund Expenditure:	\$517,461
Major Fund Deficit Amount:	

General Fund Balance:	\$733,779
Governmental Activities Long-Term Debt (see instructions):	

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Barry	Last Name	Gaudette	Ten Digit License Number	1101011050
CPA Street Address	3994 Sherwood Forest Dr	City	Traverse City	State	MI
		Zip Code	49686	Telephone	946-8930
CPA Firm Name	Barry E. Gaudette, CPA, PC	Unit's Street Address	731 S. Garfield Ave.	City	Traverse City
		LU Zip	49686		

1

TABLE OF CONTENTS

	Page
Independent Auditor's Report	4
Management's Discussion and Analysis.	6
<u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets	10
Government Wide Statement of Activities.	11
Governmental Funds Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.	13
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Business Type Funds Statement of Net Assets.	16
Business Type Funds Statement of Revenues, Expenses and Changes in Net Assets	17
Business Type Funds Statement of Cash Flows	18
Fiduciary Funds - Statement of Net Assets	19
Fiduciary Funds - Statement of Changes in Net Assets.	20
Notes to Financial Statements	21
<u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund	32
Fire Protection Fund.	33
Township Improvement Fund	34
<u>ADDITIONAL INFORMATION</u>	
Comparative Financial Statements:	
Water Utility Fund:	
Balance Sheet.	36
Statement of Revenues, Expenses and Changes in Retained Earnings	37
Statement of Cash Flows.	38
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards.	39

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.	41
Schedule of Expenditures of Federal Awards.	43
Schedule of Findings and Questioned Cost.	44

Independent Auditor's Report

Members of the Township Board
Township of Crystal Falls
Crystal Falls, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Crystal Falls, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of March 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Township of Crystal Falls
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated June 13, 2008, on my consideration of the Township of Crystal Falls, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 9 and 32 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Crystal Falls, Michigan's basic financial statements. The comparative financial statements of the Water Utility Fund are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Township of Crystal Falls, Michigan. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Standish, CPA, PC

June 13, 2008

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 60.7% from a year ago - increasing from \$2.450 million to \$3.937 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$6,000 during the year (0.4% decrease). This is attributed to substantial spending (\$174,000) on road reconstruction completed in conjunction with the water project. The water project called for replacement of the roads removed to complete the project, approximately half-width in most places, while the Township Improvement Fund was used to complete the road replacements. The business-type activities experienced an increase in net assets of nearly \$1.5 million. The increase can be primarily attributed to grant funds received on the water project from the United States Environmental Protection Agency and United States Department of Agriculture (Rural Development Agency). In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 1,024	\$ 1,110	\$ 524	\$ 67	\$ 1,548	\$ 1,177
Noncurrent Assets	<u>461</u>	<u>388</u>	<u>6,018</u>	<u>1,188</u>	<u>6,479</u>	<u>1,576</u>
Total Assets	\$ 1,485	\$ 1,498	\$ 6,542	\$ 1,255	\$ 8,027	\$ 2,753
Long-Term Debt Outstanding	\$ 3	\$ 2	\$ 3,599	\$ 135	\$ 3,602	\$ 137
Other Liabilities	<u>39</u>	<u>47</u>	<u>449</u>	<u>119</u>	<u>488</u>	<u>166</u>
Total Liabilities	\$ <u>42</u>	\$ <u>49</u>	\$ <u>4,048</u>	\$ <u>254</u>	\$ <u>4,090</u>	\$ <u>303</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 461	\$ 388	\$ 2,137	\$ 1,035	\$ 2,598	\$ 1,423
Restricted	257	362	12	0	269	362
Unrestricted	<u>725</u>	<u>699</u>	<u>345</u>	<u>(34)</u>	<u>1,070</u>	<u>665</u>
Total Net Assets	\$ 1,443	\$ 1,449	\$ 2,494	\$ 1,001	\$ 3,937	\$ 2,450

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$26,000 for the governmental activities. This increase can be attributed primarily to

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

increasing revenues and close scrutiny of the operating expense budget. The current level of unrestricted net assets for our governmental activities stands at \$725,000.

The unrestricted net assets for the business type increased by \$379,000. This can be attributed to the grant funds received used on the water project. While the retained earnings portion of unrestricted net assets in the Sewer Utility System continues as a deficit, the fund has implemented various changes to increase revenues and did show net income during the year thereby reducing the deficit of the fund.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for Services	\$ 38	\$ 34	\$ 427	\$ 247	\$ 465	\$ 280
Operating Grants and Contributions	0	0	0	0	0	2
Capital Grants and Contributions	0	0	1,559	0	1,559	0
General Revenues						
Property Taxes	\$ 485	\$ 511	\$ 0	\$ 0	\$ 485	\$ 511
State-Shared Revenues	150	149	0	0	150	149
Licenses and permits	2	2	0	0	2	2
Unrestricted Investment Earnings	19	16	9	16	28	32
Refunds and reimbursements	4	4	0	0	4	4
Sale of property	32	0	0	0	32	0
Other	0	0	0	0	0	0
Transfers	(8)	0	8	0	0	0
Total Revenues	\$ 722	\$ 716	\$ 2,003	\$ 263	\$ 2,725	\$ 979
Program Expenses						
Legislative	\$ 9	\$ 9	\$ 0	\$ 0	\$ 9	\$ 9
General Government	233	240	0	0	233	240
Public Safety	128	131	0	0	128	131
Public Works	318	114	510	254	828	368
Recreation & Culture	2	3	0	0	2	3
Community Betterment	7	2	0	0	7	2
Insurance	31	31	0	0	31	31
Total Expenses	\$ 728	\$ 530	\$ 510	\$ 254	\$ 1,238	\$ 784
Change in Net Assets	\$ (6)	\$ 186	\$ 1,493	\$ 9	\$ 1,487	\$ 195

The Township's net assets remain at a comfortable level. This can be attributed to conservative yet necessary planning and spending on past capital equipment and projects and implementation of cost savings measures.

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

Governmental Activities

The Township's total governmental revenues increased by approximately \$ 6,000 during the year. This was derived primarily from the sale of property.

Expenses increased by approximately \$198,000 during the year. This is attributed to substantial capital spending and road betterments completed in conjunction with the water.

Business-Type Activities

The Township's business-type activities consist of the Water and Sewer Funds. The Township provides sewer services to some of its residents and water to not only its residents but the City of Crystal Falls and Hematite Township as well. Sewer services are purchased from the City of Crystal Falls and the Township provides water from its own system. The revenues in water fund increased due to a rate increase and having Iron County Medical Care Facility project in place for the entire year. Sewer revenues increased due to a charge increase. Expenses in the sewer fund decreased slightly which is attributable to a drop in purchased utility services. The expenses in the Water Fund rose due to an increase in depreciation and interest expense associated with the water project.

The Township will continue to closely examine its utility operations this year to maintain profits and cash flows.

The Township's Funds

Analysis of the Township's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The Township's major funds for 2007-2008 include the General Fund, Fire Protection Fund, Township Improvement Fund and each of the business type funds.

The General Fund pays for most of the Township's governmental services. The most significant are general maintenance of Township property and buildings, parks and recreation, maintaining the Township's equipment, and general administration. These services are primarily funded from property taxes assessed to the residents of the Township and revenues shared with the State of Michigan.

The Township's Water and Sewer Funds are funded primarily through charges to customers for the services received.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. Various accounts are amended as necessary, unanticipated expenditures are incurred by the Township in the course of its operations.

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2008

Capital Asset and Debt Administration

At the end of the 2007-2008 fiscal year, the Township had slightly more than \$6.3 million invested in a broad range of capital assets, including land and buildings, office equipment and a water system, net of depreciation. The major addition during the year was undertaking of the water improvement project to supply water to the existing Township customers and also the City of Crystal Falls. In addition, the Township has invested significantly in roads within the Township which are not included in the total as the roads are owned by the Iron County Road Commission. These roads are maintained by the Road Commission with the costs recorded on their financial records.

The Township continued to timely service its existing debt in the Water Fund. Principal payments made during the year on the debt was \$10,000.

The Township issued revenue bonds in the amount of \$3.589 million dollars which were purchased by the Rural Development Agency, United States Department of Agriculture. The bonds carry an interest rate of 4.125% per annum.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2008-2009 calls for no change in property tax rates in the general fund nor the Fire Protection Fund. Because of the impact of Proposal A, the new Michigan Business Tax and decreasing State Shared Revenues, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the Township will grow at a rate less than inflation, before considering new property additions.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses. The Water Bond Ordinance that has been adopted calls for the increase in water rates. In addition, a Sewer rate increase will be considered in the near future. The Township will be closely considering the decrease in sewer utilization by its metered customers to identify any problems that may exist.

Contacting the Township's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Supervisor's office.

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF NET ASSETS
 March 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 913,057	\$ 237,333	\$ 1,150,390
Receivables - net	61,539	257,992	319,531
Inventory	659	4,413	5,072
Prepaid expenses	26,946	0	26,946
Internal receivables	<u>22,087</u>	<u>24,000</u>	<u>46,087</u>
TOTAL CURRENT ASSETS	\$ 1,024,288	\$ 523,738	\$ 1,548,026
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 149,472	\$ 149,472
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ 461,041	\$ 5,860,840	\$ 6,321,881
Other	<u>0</u>	<u>7,575</u>	<u>7,575</u>
TOTAL NON-CURRENT ASSETS	\$ 461,041	\$ 5,868,415	\$ 6,329,456
TOTAL ASSETS	\$ 1,485,329	\$ 6,541,625	\$ 8,026,954
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 10,721	\$ 238,622	\$ 249,343
Accrued and other liabilities	4,532	84,958	89,490
Current part of non-current liabilities	0	0	0
Internal payables	<u>24,000</u>	<u>0</u>	<u>24,000</u>
TOTAL CURRENT LIABILITIES	\$ 39,253	\$ 323,580	\$ 362,833
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 125,326	\$ 125,326
NON-CURRENT LIABILITIES			
Compensated absences	\$ 2,883	\$ 0	\$ 2,883
Revenue bonds payable	<u>0</u>	<u>3,598,674</u>	<u>3,598,674</u>
TOTAL NON-CURRENT LIABILITIES	\$ 2,883	\$ 3,598,674	\$ 3,601,557
TOTAL LIABILITIES	\$ 42,136	\$ 4,047,580	\$ 4,089,716
NET ASSETS			
Invested in capital assets, net of related debt	\$ 461,041	\$ 2,136,840	\$ 2,597,881
Restricted for			
Prepaid expenses	26,946	0	26,946
Inventory	659	4,413	5,072
Bond discount	0	7,575	7,575
Fire protection	189,498	0	189,498
Capital improvements	39,768	0	39,768
Unrestricted	<u>725,281</u>	<u>345,217</u>	<u>1,070,498</u>
TOTAL NET ASSETS	\$ 1,443,193	\$ 2,494,045	\$ 3,937,238

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
				GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities						
Legislative	\$ 8,838	\$ 0	\$ 0	\$ (8,838)	\$	\$ (8,838)
General government	233,043	0	0	(233,043)		(233,043)
Public safety	127,763	0	0	(127,763)		(127,763)
Public works	318,116	38,099	0	(280,017)		(280,017)
Parks and recreation	2,298	0	0	(2,298)		(2,298)
Community betterment	7,255	0	0	(7,255)		(7,255)
Insurance	30,626	0	0	(30,626)		(30,626)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 727,939	\$ 38,099	\$ 0	\$ (689,840)	\$	\$ (689,840)
Business-Type Activities						
Sewer	\$ 111,409	\$ 113,922	\$ 0	\$	\$ 2,513	\$ 2,513
Water	398,968	313,324	0		1,473,216	1,473,216
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 510,377	\$ 427,246	\$ 0	\$	\$ 1,475,729	\$ 1,475,729
GENERAL REVENUES						
Property taxes				\$ 485,003	\$ 0	\$ 485,003
State shared revenues and grants				149,414	0	149,414
Licenses and permits				2,124	0	2,124
Unrestricted investments earnings				19,196	9,373	28,569
Refunds and reimbursements				4,349	0	4,349
Other				0	0	0
SPECIAL ITEM - Gain (loss) on sale of property				31,613	0	31,613
TRANSFERS				(8,000)	8,000	0
TOTAL GENERAL REVENUES AND TRANSFERS				\$ 683,699	\$ 17,373	\$ 701,072
CHANGE IN NET ASSETS						
Net assets - beginning				\$ (6,141)	\$ 1,493,102	\$ 1,486,961
				1,449,334	1,000,943	2,450,277
NET ASSETS - ENDING				\$ 1,443,193	\$ 2,494,045	\$ 3,937,238

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
 March 31, 2008

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and equivalents	\$ 533,182	\$ 185,549	\$ 194,326	\$ 913,057
Taxes receivable	23,113	9,754	0	32,867
Accounts receivable	200	0	0	200
Due from other funds	173,787	18,195	0	191,982
Due from other governmental units	28,472	0	0	28,472
Inventory	659	0	0	659
Prepaid expense	<u>4,956</u>	<u>21,990</u>	<u>0</u>	<u>26,946</u>
TOTAL ASSETS	\$ <u>764,369</u>	\$ <u>235,488</u>	\$ <u>194,326</u>	\$ <u>1,194,183</u>
LIABILITIES				
Accounts payable	\$ 10,721	\$ 0	\$ 0	\$ 10,721
Accrued payroll expense	4,210	0	0	4,210
Accrued taxes and withholdings	322	0	0	322
Due to other funds	15,337	24,000	154,558	193,895
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 30,590	\$ 24,000	\$ 154,558	\$ 209,148
FUND BALANCES				
Reserved for				
Prepaid expenses	\$ 4,956	\$ 21,990	\$ 0	\$ 26,946
Unreserved	<u>728,823</u>	<u>189,498</u>	<u>39,768</u>	<u>958,089</u>
TOTAL FUND EQUITY	\$ <u>733,779</u>	\$ <u>211,488</u>	\$ <u>39,768</u>	\$ <u>985,035</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>764,369</u>	\$ <u>235,488</u>	\$ <u>194,326</u>	\$ <u>1,194,183</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
March 31, 2008

Total fund balance - total governmental funds	\$ 985,035
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	461,041
Accumulated employee benefits not used in current period	<u>(2,883)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>1,443,193</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year ended March 31, 2008

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
General property taxes	\$ 338,335	\$ 146,668	\$ 0	\$ 485,003
Federal grants	0	0	0	0
State shared revenues and grants	149,414	0	0	149,414
Charges for services	38,099	0	0	38,099
Licenses and permits	2,124	0	0	2,124
Interest and rentals	8,627	4,040	6,529	19,196
Sale of property	2,548	0	29,065	31,613
Refunds and reimbursements	4,349	0	0	4,349
Other	0	0	0	0
TOTAL REVENUES	\$ 543,496	\$ 150,708	\$ 35,594	\$ 729,798
EXPENDITURES				
Legislative	\$ 8,838	\$ 0	\$ 0	\$ 8,838
General government	220,543	0	0	220,543
Public safety	0	127,763	0	127,763
Public works	137,901	0	173,857	311,758
Parks and recreation	2,298	0	0	2,298
Community betterment	7,255	0	0	7,255
Insurance	30,626	0	0	30,626
Capital outlay	0	0	90,701	90,701
TOTAL EXPENDITURES	\$ 407,461	\$ 127,763	\$ 264,558	\$ 799,782
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 136,035	\$ 22,945	\$ (228,964)	\$ (69,984)
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	\$ 0	\$ 0	\$ 110,000	\$ 110,000
Transfer to other funds	(110,000)	(8,000)	0	(118,000)
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ 26,035	\$ 14,945	\$ (118,964)	\$ (77,984)
Fund balance - beginning	707,744	196,543	158,732	1,063,019
FUND BALANCE - ENDING	\$ 733,779	\$ 211,488	\$ 39,768	\$ 985,035

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

Net change in fund balance - total governmental funds \$ (77,984)

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities
these costs are allocated over their estimated useful life and reported as depreciation 72,700

Increases in accumulated employee vacation are recorded when earned in the
Statement of Activities (857)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (6,141)

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
BUSINESS TYPE FUNDS
March 31, 2008

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 21,478	\$ 215,855	\$ 237,333
Accounts receivable	11,854	30,678	42,532
Grant receivable	0	215,460	215,460
Due from other funds	0	24,000	24,000
Inventory	<u>0</u>	<u>4,413</u>	<u>4,413</u>
TOTAL CURRENT ASSETS	\$ 33,332	\$ 490,406	\$ 523,738
Restricted Assets	\$ 1,750	\$ 147,722	\$ 149,472
Property, Plant and Equipment:			
Utility plant and equipment	\$ 228,199	\$ 6,608,920	\$ 6,837,119
Construction in progress	0	0	0
Less accumulated depreciation	<u>(78,086)</u>	<u>(898,193)</u>	<u>(976,279)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 150,113	\$ 5,710,727	\$ 5,860,840
Other Assets - Deferred bond costs	\$ <u>0</u>	\$ <u>7,575</u>	\$ <u>7,575</u>
TOTAL ASSETS	\$ 185,195	\$ 6,356,430	\$ 6,541,625
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 13,613	\$ 225,009	\$ 238,622
Accrued salaries and wages	677	1,212	1,889
Payroll withholdings and accrued taxes	52	94	146
Due to other funds	0	0	0
Customer security deposits	2,240	14,500	16,740
Interest payable	0	66,183	66,183
Current portion of long term debt	<u>0</u>	<u>44,000</u>	<u>44,000</u>
TOTAL CURRENT LIABILITIES	\$ 16,582	\$ 350,998	\$ 367,580
Long Term Liabilities	\$ <u>0</u>	\$ <u>3,680,000</u>	\$ <u>3,680,000</u>
TOTAL LIABILITIES	\$ 16,582	\$ 4,030,998	\$ 4,047,580
NET ASSETS			
Invested in capital assets - net of related debt	\$ 150,113	\$ 1,986,727	\$ 2,136,840
Restricted for debt service	0	125,326	125,326
Restricted for future construction and improvements	0	8,663	8,663
Unrestricted	<u>18,500</u>	<u>204,716</u>	<u>223,216</u>
TOTAL NET ASSETS	\$ 168,613	\$ 2,325,432	\$ 2,494,045

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUSINESS TYPE FUNDS
Year ended March 31, 2008

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
User charges	\$ 113,922	\$ 293,066	\$ 406,988
Other	<u>0</u>	<u>20,258</u>	<u>20,258</u>
TOTAL OPERATING REVENUES	\$ 113,922	\$ 313,324	\$ 427,246
OPERATING EXPENSES			
Salaries and wages	\$ 12,854	\$ 57,090	\$ 69,944
Payroll taxes	1,003	4,457	5,460
Employee benefits	7,184	31,922	39,106
Supplies	514	28,673	29,187
Purchased utilities for resale	77,605	0	77,605
Contracted services	3,153	51,348	54,501
Utilities	3,378	34,488	37,866
Dues and subscriptions	10	67	77
Travel	0	275	275
Printing and publishing	61	0	61
Depreciation	5,120	89,507	94,627
Other	<u>527</u>	<u>0</u>	<u>527</u>
TOTAL OPERATING EXPENSES	\$ 111,409	\$ 297,827	\$ 409,236
OPERATING INCOME (LOSS)	\$ 2,513	\$ 15,497	\$ 18,010
NON-OPERATING INCOME (EXPENSE)			
Interest income	\$ 0	\$ 9,373	\$ 9,373
Transfer from other funds	0	8,000	8,000
Federal grant received	0	1,558,860	1,558,860
Interest expense	<u>0</u>	<u>(101,141)</u>	<u>(101,141)</u>
NET INCOME (LOSS)	\$ 2,513	\$ 1,490,589	\$ 1,493,102
Net assets - beginning	<u>166,100</u>	<u>834,843</u>	<u>1,000,943</u>
NET ASSETS - ENDING	\$ 168,613	\$ 2,325,432	\$ 2,494,045

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
BUSINESS TYPE FUNDS
Year ended March 31, 2008

	SEWER UTILITY	WATER UTILITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 112,967	\$ 318,065	\$ 431,032
Payments to suppliers	(84,695)	(112,565)	(197,260)
Payments to or on behalf of employees	(21,394)	(94,771)	(116,165)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 6,878	\$ 110,729	\$ 117,607
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Loan from (to) other funds	0	(80,000)	(80,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	\$ 0	\$ (10,000)	\$ (10,000)
Interest paid on revenue bonds	0	(39,040)	(39,040)
Revenue bonds issued	0	3,589,000	3,589,000
Federal grant received	0	1,343,400	1,343,400
Purchases of capital assets	0	(4,560,524)	(4,560,524)
Funding of restricted accounts	(1,750)	(147,269)	(149,019)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (1,750)	\$ 175,567	\$ 173,817
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ 0	\$ 9,373	\$ 9,373
NET INCREASE (DECREASE) IN CASH	\$ 5,128	\$ 215,669	\$ 220,797
Cash and equivalents - beginning	16,350	186	16,536
CASH AND EQUIVALENTS - ENDING	\$ 21,478	\$ 215,855	\$ 237,333
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,513	\$ 15,497	\$ 18,010
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	5,120	89,507	94,627
Change in Assets and Liabilities			
Receivables - net	(3,195)	(9,559)	(12,754)
Inventory	0	173	173
Accounts payable	553	2,113	2,666
Accrued salaries and wages	(328)	(1,211)	(1,539)
Payroll withholding and accrued taxes	(25)	(91)	(116)
Customer security deposits	2,240	14,300	16,540
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,878	\$ 110,729	\$ 117,607

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
FIDUCIARY FUND
March 31, 2008

ASSETS

Cash and equivalents	\$ 94,875
Due from other governmental units	<u>0</u>
TOTAL ASSETS	\$ <u>94,875</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Due to other funds	\$ 22,087
Due to other governmental units	72,751
Due to taxpayers	<u>37</u>
TOTAL LIABILITIES	\$ <u>94,875</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
FIDUCIARY FUNDS - AGENCY
STATEMENT OF CHANGES IN NET ASSETS
Year ended March 31, 2008

	BALANCE 31-Mar-07	ADDITIONS	DEDUCTIONS	BALANCE 31-Mar-08
ASSETS				
Cash and equivalents	\$ 86,296	\$ 1,143,760	\$ 1,135,181	\$ 94,875
Due from other governmental units	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>86,296</u>	\$ <u>1,143,760</u>	\$ <u>1,135,181</u>	\$ <u>94,875</u>
LIABILITIES				
Due to other funds	\$ 21,247	\$ 502,175	\$ 501,335	\$ 22,087
Due to other governmental units	65,049	634,766	627,064	72,751
Due to taxpayers	<u>0</u>	<u>6,819</u>	<u>6,782</u>	<u>37</u>
TOTAL LIABILITIES	\$ <u>86,296</u>	\$ <u>1,143,760</u>	\$ <u>1,135,181</u>	\$ <u>94,875</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Crystal Falls (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected five member board of trustees (Board). The accompanying financial statements present the government, as the Township does not have any component units that are required to be presented, either discretely or blended.

JOINTLY GOVERNED ORGANIZATIONS

Crystal Falls Fire Authority

The Township of Crystal Falls and City of Crystal Falls participate jointly in the operation of the Crystal Falls Fire Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Fire Department Offices located in the Crystal Falls City Hall.

The funding formula approved by the members of the Local Units is split 50/50 between the City of Crystal Falls and the Township. The Township's contribution to the Fire Authority for the audit period was \$127,638.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the 15th day of February of the ensuing year without penalty. The Township bills and collects its own property taxes and also taxes for Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. Township real property taxes are recognized when levied and personal property taxes are recognized when received.

The Township actually assessed 4.1466 mills for operations and 1.75 mills for fire protection. The millage generated net tax collections of \$341,185 that is recorded in the General Fund and \$143,978 in the Fire Protection Fund.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Fire Protection Fund accounts for the tax collections restricted for fire protection and pays primarily the quarterly commitments to the Crystal Falls Fire Authority.

The Township Improvement Fund accounts for transfers primarily from the General Fund and expends funds for designated non-utility capital projects.

The Township reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Township's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 16th of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for utility system improvements, debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets— Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the Township is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)– It is the Township's policy to permit employees to accumulate earned but unused compensatory benefits. The Township does not have a determinable liability for unpaid accumulated sick leave since the Township has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All compensatory leave pay is accrued when incurred in the proprietary fund financial statements. A liability for this amount is reported in governmental funds only for employee terminations as of year-end as the use of current financial resources to satisfy the debt has not been determined.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as Other Financing Sources. Premiums received on debt issuances are reported as Other Financing Sources while discounts are reported as Other Financing Uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE B - CASH AND INVESTMENTS

MCL 129.91 authorizes the Township to deposit and invest in the accounts of Federal insured banks, credit unions, savings and loan associations; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks and one investment organization for the deposit of Township funds. The investments policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized only a portion of the investments described in the preceding paragraph. The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the Township's deposits and investments were reported on the basic financial statements in the following categories:

Bank deposits (demand and time deposits)	\$1,011,817
Investment house deposits	<u>233,448</u>
 TOTAL (includes trust and agency funds)	 <u><u>\$1,245,265</u></u>

The federal insured bank balance of the Township's deposits is \$ 350,596. There were no items classified as investments during the fiscal year.

NOTE C - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amounts appropriated in any of its budgetary funds.

Included in the "Required Supplemental Information" section of this report is a listing of revenues and expenditures for the budgetary funds. The schedules reflect the original budget, amended budget and actual amounts for each of the fund's activities. Some unfavorable variances occurred during the year primarily due to year accruals and reclassifications.

NOTE D - ACCUMULATED DEFICITS

The Township has an accumulated fund balance/retained earnings deficits in its Sewer Fund. To be in compliance with Public Act 275 of 1980, as amended, the Township must formulate and file a deficit elimination plan. While the deficit still exists, revenues exceeded expenses during the year.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE E - INTERFUND TRANSFERS

The following interfund transfer was recorded during the year and is reflected in the financial statements.

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Township Improvement	\$ 110,000
Fire	Water	8,000

NOTE F - INTERFUND RECEIVABLES AND PAYABLE

The March 31, 2008, balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
Improvement	General	\$ 154,558
Tax Collection	General	19,229
General	Fire Protection	15,337
Tax Collection	Fire Protection	2,858
Fire Protection	Water Utility	24,000

NOTE G - TOWNSHIP IMPROVEMENT FUND

Pursuant to a resolution of the Township Board, this fund was established to accumulate financial resources to be used for Township capital improvement and capital outlay type expenses.

The fund was initiated with a transfer from the General Fund. As mandated by law, such transfers are limited to two mills per year/five mills in total of the state equalized valuation of the real and personal property in the Township . Further, all interest earned on investments of the fund becomes part of the fund.

If deemed necessary for the operations of the Township, the Board at its discretion may transfer monies back to the General Fund.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE H - CHANGES IN CAPITAL ASSETS

Capital asset activity for the Township for the year ended March 31, 2007 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 55,994	\$ 0	\$ 0	\$ 55,994
Assets depreciated				
Buildings	613,923	0	0	613,923
Equipment	<u>52,944</u>	<u>90,701</u>	<u>0</u>	<u>143,645</u>
Total at Historic Cost	\$ 722,861	\$ 90,701	\$ 0	\$ 813,562
Less Accumulated Depreciation for:				
Buildings	\$ 296,525	\$ 8,787	\$ 0	\$ 305,312
Equipment	<u>37,995</u>	<u>9,213</u>	<u>0</u>	<u>47,208</u>
Total Accumulated Depreciation	<u>\$ 334,520</u>	<u>\$ 18,000</u>	<u>\$ 0</u>	<u>\$ 352,520</u>
Net Governmental Funds - Capital Assets	<u>\$ 388,341</u>			<u>\$ 461,041</u>
 Business Type Funds				
Assets not depreciated - Construction	\$ 511,695	\$ 0	\$ 511,695	\$ 0
Assets depreciated				
Sewer utility system	228,199	0	0	228,199
Water utility system	<u>1,321,241</u>	<u>5,287,679</u>	<u>0</u>	<u>6,608,920</u>
Total at Historic Cost	\$2,061,135	\$5,287,679	\$ 511,695	\$ 6,837,119
Less Accumulated Depreciation for:				
Sewer utility system	\$ 72,966	\$ 5,120	\$ 0	\$ 78,086
Water utility system	<u>808,687</u>	<u>89,506</u>	<u>0</u>	<u>898,193</u>
Total Accumulated Depreciation	<u>\$ 881,653</u>	<u>\$ 94,626</u>	<u>\$ 0</u>	<u>\$ 976,279</u>
Net Business Type Funds - Capital Assets	<u>\$1,179,482</u>			<u>\$ 5,860,840</u>

NOTE I - DEFERRED COMPENSATION PLAN

The Township has established a deferred compensation plan under Internal Revenue Code Section 457. The plan, available to all regular Township employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE I - DEFERRED COMPENSATION PLAN (CONTINUED)

The Township does not have significant administrative involvement for the assets of the deferred compensation plan and each employee is electing investments for themselves.

The Township accounts for and reports its deferred compensation plan under provisions of both GASB Statements No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" and GASB Statement No. 34, "Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments."

GASB Statement No. 32 rescinded GASB Statement No. 2 and established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governmental employers. The laws governing these plans were changed to state that as of August 20, 1996, new plans would not be considered eligible unless all assets and income of the plan are held in trust or covered by annuity contract for the exclusive benefits of the participants and their beneficiaries. The Township's plan meets this requirement.

GASB Statement No. 34 amended GASB Statement No. 32 Paragraph 4, and the Township's deferred compensation plan assets and liabilities are not reported in the Township's financial statements.

The Township's contribution was \$4,004 during the year.

NOTE J - PROPRIETARY FUND DEBT - WATER FUND

WATER SUPPLY SYSTEM REVENUE AND REVENUE REFUNDING BONDS - SERIES 1987

\$ 220,000 - In July of 1993, the Township refinanced its then outstanding Water Supply System Revenue Bonds - Series 1987 by entering into a "Savings Agreement" with the Michigan Municipal Bond Authority pursuant to the Authorities Local Government Refunding Revenue Bond Program. Through a reduction in the coupon interest rates, the refinancing effectively saved the Township \$49,925 in bond interest. Refinancing charges totaling \$ 15,318 were deferred and are being amortized on a straight line basis over the remaining life of the bonds.

The cumulative debt service schedule is below:

Payable Fiscal Year	May 1		November 1		Total
	Interest		Interest	Principal	
2008-2009	\$ 5,400	\$	1,988	\$ 10,000	\$ 17,388
2009-2010	5,000		1,823	10,000	16,823
2010-2011	4,600		1,658	10,000	16,258
2011-2012	4,200		1,493	10,000	15,693
2012-2013	3,800		1,328	10,000	15,128
2013-2018	10,800		2,165	85,000	97,965
TOTALS	\$ 33,800	\$	10,455	\$ 135,000	\$ 179,255

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE J - CHANGES IN LONG TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM REVENUE BONDS - SERIES 2007

The Township issued \$3,589,000 of limited revenue bonds on May 17, 2007, for the updating and enlargement of the water supply and distribution system. Payment of the bonds begin in 2008 and run to 2048, with interest rates of 4.125%. The entire bond issue was purchased by the Rural Development Agency of the United States Department of Agriculture.

The cumulative debt service schedule is below:

Payable	May 1		November 1	
Fiscal Year	Interest	Principal	Interest	Total
2008-2009	\$ 74,020	\$ 34,000	\$ 73,322	\$ 181,342
2009-2010	73,322	35,000	72,600	180,922
2010-2011	72,600	37,000	71,837	181,437
2011-2012	71,837	38,000	71,053	180,890
2012-2013	71,053	40,000	70,228	181,281
2013-2018	342,066	230,000	337,322	909,388
2018-2023	316,140	286,000	310,241	912,381
2023-2028	283,903	356,000	276,561	916,464
2028-2033	243,685	445,000	234,505	923,190
2033-2038	193,524	553,000	182,119	928,643
2038-2043	131,072	690,000	116,841	937,913
2043-2048	53,295	845,000	35,867	934,162
TOTALS	\$ 1,926,517	\$ 3,589,000	\$ 1,852,496	\$ 7,368,013

	Beginning Balance	Newly Issued	Retired	Ending Balance	Due within One Year
Water Supply Revenue Bonds	\$ 145,000	\$3,589,000	\$ 10,000	\$3,724,000	\$ 44,000

NOTE K - RISK MANAGEMENT

The Township of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended March 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 707,744	\$ 707,744	\$ 707,744	\$ 0
Resources (Inflows)				
Property taxes	350,000	350,000	338,335	(11,665)
Federal grants	0	0	0	0
State shared revenues and grants	118,500	118,500	149,414	30,914
Licenses and permits	2,500	2,500	2,124	(376)
Charges for services	36,000	36,000	38,099	2,099
Interest and rentals	6,800	6,800	8,627	1,827
Sale of property	25,000	2,500	2,548	48
Refunds and reimbursements	1,000	1,000	4,349	3,349
Other	200	200	0	(200)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 1,247,744	\$ 1,225,244	\$ 1,251,240	\$ 25,996
Charges to Appropriations (Outflows)				
Legislative				
Trustees	\$ 30,916	\$ 12,300	\$ 8,838	\$ 3,462
General Government				
Supervisor	6,616	27,000	26,417	583
Elections	1,000	2,100	1,817	283
Clerk	33,626	33,800	34,250	(450)
Assessor	20,900	23,700	23,303	397
Audit/attorney	20,500	20,000	16,873	3,127
Board of review	600	900	821	79
Treasurer	16,632	28,400	27,976	424
Buildings and property	47,560	55,500	56,552	(1,052)
Cemetery	15,620	17,100	15,617	1,483
Zoning	15,890	19,300	16,917	2,383
Public Works				
Maintenance	65,580	29,300	64,540	(35,240)
Sanitation	80,236	73,500	73,361	139
Parks and Recreation				
Gibson Lake park	4,128	1,400	983	417
Other	0	1,500	1,315	185
Community betterment	5,857	5,500	7,255	(1,755)
Insurance	31,000	33,500	30,626	2,874
Capital outlay	1,100	0	0	0
Transfers to other funds	110,000	115,000	110,000	5,000
TOTAL CHARGES TO APPROPRIATIONS	\$ 507,761	\$ 499,800	\$ 517,461	\$ (17,661)
BUDGETARY FUND BALANCE--ENDING	\$ 739,983	\$ 725,444	\$ 733,779	\$ 8,335

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
FIRE PROTECTION FUND
Year ended March 31, 2008

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 196,543	\$ 196,543	\$ 196,543	\$ 0
Resources (Inflows)				
Property taxes	138,000	138,000	146,668	8,668
Interest earned	0	0	4,040	4,040
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 334,543	\$ 334,543	\$ 347,251	\$ 12,708
Charges to Appropriations (Outflows)				
Public safety - fire	\$ 135,000	\$ 129,000	\$ 127,638	\$ 1,362
Administration	0	0	125	(125)
Capital outlay	0	0	0	0
Transfer to other funds - hydrant rental	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>143,000</u>	\$ <u>137,000</u>	\$ <u>135,763</u>	\$ <u>1,237</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>191,543</u>	\$ <u>197,543</u>	\$ <u>211,488</u>	\$ <u>13,945</u>

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
TOWNSHIP IMPROVEMENT FUND
Year ended March 31, 2008

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 158,732	\$ 158,732	\$ 158,732	\$ 0
Resources (Inflows)				
Interest	4,000	4,000	6,529	2,529
Equipment/land sales	36,000	29,100	29,065	(35)
Transfer from other funds	<u>110,000</u>	<u>115,000</u>	<u>110,000</u>	<u>(5,000)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 308,732	\$ 306,832	\$ 304,326	\$ (2,506)
Charges to Appropriations (Outflows)				
Public Works				
Maintenance	\$ 0	\$ 91,000	\$ 173,857	\$ (82,857)
Capital outlay	304,000	209,000	90,701	118,299
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>304,000</u>	\$ <u>300,000</u>	\$ <u>264,558</u>	\$ <u>35,442</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>4,732</u>	\$ <u>6,832</u>	\$ <u>39,768</u>	\$ <u>32,936</u>

ADDITIONAL
INFORMATION

TOWNSHIP OF CRYSTAL FALLS
BALANCE SHEET
WATER SUPPLY SYSTEM FUND
 March 31, 2008 and 2007

ASSETS	2008	2007
Current Assets:		
Cash	\$ 215,855	\$ 186
Accounts receivable	30,678	21,119
Grant receivable	215,460	0
Due from other funds	24,000	16,000
Inventory	4,413	4,586
TOTAL CURRENT ASSETS	\$ 490,406	\$ 41,891
Restricted Assets:		
Bond interest and redemption	\$ 110,701	\$ 253
Bond reserve	14,625	0
Repairs, replacement and improvement	8,663	0
Customer security deposits	13,733	200
TOTAL RESTRICTED ASSETS	\$ 147,722	\$ 453
Property and Equipment:		
Property and equipment	\$ 6,608,920	\$ 1,321,241
Construction in progress	0	511,695
Less accumulated depreciation	(898,193)	(808,687)
NET PROPERTY AND EQUIPMENT	\$ 5,710,727	\$ 1,024,249
Other Assets - Deferred bond costs - net	\$ 7,575	\$ 8,327
TOTAL ASSETS	\$ 6,356,430	\$ 1,074,920
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 225,009	\$ 7,436
Accrued salaries and wages	1,212	2,423
Payroll withholdings and accrued taxes	94	185
Due to other funds	0	80,000
Customer security deposits	14,500	200
Accrued interest	66,183	4,833
Current portion of long-term debt	44,000	10,000
TOTAL CURRENT LIABILITIES	\$ 350,998	\$ 105,077
Long-Term Debt:		
Revenue bonds	\$ 3,724,000	\$ 145,000
Less current portion included above	(44,000)	(10,000)
TOTAL LONG-TERM DEBT	\$ 3,680,000	\$ 135,000
TOTAL LIABILITIES	\$ 4,030,998	\$ 240,077
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 1,560,500	\$ 27,220
Township	593,843	593,843
TOTAL CONTRIBUTED CAPITAL	\$ 2,154,343	\$ 621,063
Retained earnings:		
Reserved	\$ 11,988	\$ 12,913
Unreserved - undesignated	159,101	200,867
TOTAL RETAINED EARNINGS	\$ 171,089	\$ 213,780
TOTAL FUND EQUITY	\$ 2,325,432	\$ 834,843
TOTAL LIABILITIES AND FUND EQUITY	\$ 6,356,430	\$ 1,074,920

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
WATER SUPPLY SYSTEM FUND
Years ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 293,066	\$ 148,879	\$ 144,187
State grants	20,000	0	20,000
Water taps and other services	<u>258</u>	<u>173</u>	<u>85</u>
TOTAL OPERATING REVENUES	\$ 313,324	\$ 149,052	\$ 164,272
OPERATING EXPENSES			
Wages	\$ 57,090	\$ 33,403	\$ (23,687)
Payroll taxes	4,457	2,629	(1,828)
Employee benefits	31,922	21,642	(10,280)
Supplies	28,673	7,358	(21,315)
Purchased services	51,348	8,107	(43,241)
Dues and subscriptions	67	62	(5)
Travel	275	448	173
Printing and publishing	0	129	129
Utilities	34,488	21,639	(12,849)
Depreciation	<u>89,507</u>	<u>34,120</u>	<u>(55,387)</u>
TOTAL OPERATING EXPENSES	\$ 297,827	\$ 129,537	\$ (168,290)
OPERATING INCOME	\$ 15,497	\$ 19,515	\$ (4,018)
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 9,373	\$ 8,401	\$ 972
Transfer from other funds	8,000	8,000	0
Interest expense	<u>(101,141)</u>	<u>(8,469)</u>	<u>(92,672)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ (83,768)	\$ 7,932	\$ (91,700)
NET INCOME	\$ (68,271)	\$ 27,447	\$ (95,718)
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	25,580	6,094	
Retained Earnings - April 1	<u>213,780</u>	<u>180,239</u>	
RETAINED EARNINGS - MARCH 31	\$ <u>171,089</u>	\$ <u>213,780</u>	

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM FUND
Year ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 318,065	\$ 120,801
Payments to suppliers	(112,565)	(60,488)
Payments to or on behalf of employees	<u>(94,771)</u>	<u>(57,990)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 110,729	\$ 2,323
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES - Loan (repayment) from (to) other funds	(80,000)	80,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (10,000)	\$ (5,000)
Interest paid on revenue bonds	(39,040)	(8,336)
Revenues bonds issued	3,589,000	0
Federal grants received	1,343,400	0
Purchases of capital assets	(4,560,524)	0
Construction in progress	0	(255,324)
Funding of restricted accounts	<u>(147,269)</u>	<u>5,228</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 175,567	\$ (263,432)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ 9,373	\$ 8,401
NET INCREASE (DECREASE) IN CASH	\$ 215,669	\$ (172,708)
Cash and equivalents - beginning	<u>186</u>	<u>172,894</u>
CASH AND EQUIVALENTS - ENDING	\$ 215,855	\$ 186
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 15,497	\$ 19,515
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	89,507	34,120
Change in Assets and Liabilities		
Receivables - net	(9,559)	(13,138)
Inventory	173	781
Accounts payable	2,113	(23,526)
Accrued salaries and wages	(1,211)	(293)
Payroll withholdings and accrued taxes	(91)	(23)
Customer security deposits	14,300	200
Deferred revenue	<u>0</u>	<u>(15,313)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 110,729	\$ 2,323

**Report on Internal Control over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards**

Members of the Township Board
Township of Crystal Falls
Crystal Falls, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan (Township), as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements and have issued my report thereon dated June 13, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Township's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Township of Crystal Falls
Page Two

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the township board, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandlett, CPA, PC

June 13, 2008

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Members of the Township Board
Township of Crystal Falls
Crystal Falls, Michigan

Compliance

I have audited the compliance of the Township of Crystal Falls, Michigan (Township), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2008. The Township's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Township's management. My responsibility is to express an opinion on the Township's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Township's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Township's compliance with those requirements.

In my opinion, the Township, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2008.

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
Township of Crystal Falls
Page Two

Internal Control Over Compliance

The management of the Township, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Township's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Township's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Township Board, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bam E. Vanduit, CPA, PC
June 13, 2008

TOWNSHIP OF CRYSTAL FALLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended March 31, 2008

	<u>CFDA NUMBER</u>	<u>FEDERAL/ PASS-THROUGH GRANT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Direct Program:			
Congressionally Mandated Programs	66.202	XP-9657-4601	\$ <u>385,700</u>
TOTAL HOUSING AND URBAN DEVELOPMENT			\$ 385,700
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities-Grant	10.760		\$ 1,173,160
Water and Waste Disposal Systems for Rural Communities-Loan	10.760		<u>3,589,000</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>4,762,160</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>5,147,860</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2008

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the Township of Crystal Falls, Michigan (Township). Federal awards received directly for federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The Township's reporting entity is defined in Note 1 of the City's basic financial statements.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified basis of accounting, which is described in Note 1 of the Townships's basic financial statements.

TOWNSHIP OF CRYSTAL FALLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
March 31, 2008

SECTION I - PRIOR AUDIT FINDINGS

None

SECTION II - SUMMARY OF AUDITOR RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Township of Crystal Falls.
2. There were no control deficiencies disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Township of Crystal Falls that were disclosed during the audit.
4. There were no reportable conditions in internal control over major federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Township of Crystal Falls expresses an unqualified opinion on both major programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133. There were no audit findings.
7. The programs tested as major programs included:
 - U.S. Environmental Protection Agency:
 - Congressionally Mandated Programs
 - U.S. Department of Agriculture:
 - Water and Waste Disposal Systems for Rural Communities:
 - Grant
 - Loan
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Township of Crystal Falls was not determined to be a low-risk auditee.

CFDA No. 66.202

CFDA No. 10.760

CFDA No. 10.760

SECTION III - FINANCIAL STATEMENT FINDINGS

None

SECTION IV - FEDERAL AWARD FINDINGS

None